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Financial reports and audited financial statements, and reports of the Board of Auditors

Financial reports and audited financial statements and reports of the Board of Auditors for the period ended 31 December 2013

Report of the Advisory Committee on Administrative and Budgetary Questions

I. Introduction

1. The Advisory Committee on Administrative and Budgetary Questions considered 25 reports, consisting of the financial reports, audited financial statements and reports of the Board of Auditors for the financial period ended 31 December 2013 to the General Assembly for 19 entities of the United Nations system; the reports of the Board on the major business transformation initiatives undertaken by the Secretariat (the capital master plan, the implementation of the International Public Sector Accounting Standards (IPSAS) and the enterprise resource planning system); the concise summary of the principal findings and conclusions contained in the reports of the Board for the biennium 2012-2013 and annual financial periods 2012 and 2013; and advance copies of the reports of the Secretary-General on the implementation of the recommendations of the Board contained in its reports on the United Nations and the funds and programmes for the financial period ended 31 December 2013. **The Advisory Committee notes with appreciation that all the reports of the Board were provided for the consideration of the Committee in a timely manner in the six official languages of the United Nations.** A list of the reports considered by the Committee is provided in the annex to the present report.

2. A total of 9 of the 19 entities are reporting annually, having fully implemented IPSAS in 2012, and 10 biennially, under the United Nations system accounting standards. In line with the requirement under IPSAS, the Board introduced annual audits for those United Nations entities that reported compliance with IPSAS for the year ended 31 December 2012. Following the adoption of IPSAS by all entities of

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the United Nations as from 1 January 2014, annual audits by the Board will apply uniformly to all entities.

3. During its consideration of the reports, the Advisory Committee met the members of the Audit Operations Committee of the Board of Auditors, who provided additional information and clarification, concluding with written responses received on 3 October 2014. The Advisory Committee also met representatives of the Secretary-General to discuss the status of implementation of the Board's recommendations. They provided additional information and clarification, concluding with written responses received on 24 September 2014.

II. Audit opinions of the Board of Auditors

4. The Board issued unmodified audit opinions for all 19 entities. It notes a trend of continuing improvement in the preparation processes relating to the financial statements (A/69/178, paras. 6-7, and Corr. 1). By way of comparison, for the financial year ended 31 December 2012, the Board had issued, for the United Nations Children's Fund (UNICEF), an emphasis of matter, and for the biennium ended 31 December 2011, for the United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women), an emphasis of matter and one other matter and, for the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA), one other matter. **The Advisory Committee notes with appreciation that all 19 entities have received unmodified audit opinions from the Board.**

III. Quality and presentation of information in the reports

5. Of the nine entities reporting under IPSAS, the Board provides an analysis of the financial ratios as at 31 December 2013 for seven (the United Nations Office for Project Services (UNOPS), the Office of the United Nations High Commissioner for Refugees (UNHCR), UNICEF, the United Nations Development Programme (UNDP), the United Nations Population Fund (UNFPA), UNRWA and UN-Women). The Board also provides a similar analysis of the financial ratios for five of the United Nations entities (the Secretariat, the United Nations Office on Drugs and Crime (UNODC), the United Nations Human Settlements Programme (UN-Habitat), the International Trade Centre (ITC) and the United Nations Environment Programme (UNEP)) reporting under the United Nations system accounting standards, which does not include full reporting on their assets and liabilities. **The Advisory Committee notes the high quality of information contained in the Board's reports on the entities that have adopted IPSAS and the benefits of the IPSAS-compliant information contained in the related reports.**

6. According to the Board, five of its reports, on the enterprise resource planning system, the capital master plan, IPSAS, UNHCR and UNOPS, are in revised formats and include features such as key facts for each topic and enhanced use of graphics, where appropriate. While providing the status of implementation of its recommendations from prior periods, the Board also provides in some reports, such as on UNODC and UNOPS (A/69/5/Add.10 and A/69/5/Add.11 and Corr.1), additional details in the form of action taken by the entities in response to the Board's recommendations. Consequently, these comprise a formal component of

some but not all of the reports of the entities audited. **The Advisory Committee encourages the Board to use a consistent format for the presentation of the status of implementation of the Board's recommendations for all entities, building on some of the presentational enhancements in the reports for the financial period ended 31 December 2013.**

7. Pursuant to General Assembly resolution 68/19 and at the request of the Advisory Committee, the Board notes that it has continued to report on cross-entity issues, including the management of implementing partners, the need for enhanced oversight, accountability and governance for globally dispersed operations and the need for strengthened staff skills relating to core business functions, within its entity-level reports.

8. In respect of the cross-entity issue on the management of implementing partners, the Advisory Committee notes varying levels of analysis and detail provided by the Board in the entity-level reports. For example, in its report on UNEP, the scope of the Board's examination rests on a brief analysis of the need for a central database for recording and monitoring the activities of implementing partners, including the movement of advances made to such partners (see A/69/5/Add.7, paras. 28-31). In its report on UNICEF, the Board examines in greater detail several aspects of the management of implementing partners, including selection, monitoring of activities, capacity-building and performance evaluation (see A/69/5/Add.3, paras. 29-51). In another instance, in its report on UNDP, the Board examines the management of implementing partners in the overall context of the programme and project management of the entity (see A/69/5/Add.1, paras. 31-91, and paras. 25-32 below on the management of implementing partners).

9. Concerning the need for enhanced oversight, accountability and governance for globally dispersed operations, another cross-entity issue examined, the Board reports on progress made by some but not all entities (UNODC, the Secretariat and UNOPS) in developing an enterprise risk management approach. For some other United Nations entities (UN-Habitat and UNEP), the Board recalls its observations from its previous audit reports (for the financial period ended 31 December 2011) that they did not operate an approach to enterprise risk management (see A/69/178, paras. 27-30).

10. **The Advisory Committee continues to find the identification of cross-entity themes useful. The Committee recommends that, for a more comprehensive disclosure of the specific issues examined, the Board should enumerate the entities considered, identify a standard set of parameters applied and, where common themes are present, provide further analysis in its concise summary report to facilitate cross-entity comparisons.**

11. Similarly, the reports of the Secretary-General (A/69/353 and Add.1) present the status of implementation of the Board's recommendations by entity or subject. In this respect, the Advisory Committee recalls its observations contained in its earlier report (see A/67/381, para. 18), where it notes that the level of explanatory detail contained in the report of the Secretary-General on the implementation of the Board's recommendations continues to be limited and does not always allow for a full understanding of the remedial action taken in response to the Board's recommendations. **The Advisory Committee considers that the presentation in the reports of the Secretary-General would benefit from a consolidation of the data on the status of implementation of all entities. The Committee also**

considers that further details in terms of the recommendations of the Board that have not been accepted, including a summarized explanation of the reasons for non-acceptance, should be provided.

IV. Major findings of the Board of Auditors

A. General observations

1. Overall financial situation

12. As noted in paragraph 5 above, the Board provides a full analysis of the financial ratios as at 31 December 2013 for seven entities reporting under IPSAS and five entities reporting under the United Nations system accounting standards. The Board notes that the ratios for the seven entities reporting under IPSAS demonstrate the financial sustainability of those entities, given that they have more than sufficient assets to cover their immediate and longer-term liabilities. The Board also notes that six of the seven entities are able to demonstrate their liquidity to meet liabilities, given that their cash ratio exceeds 1:1, UNRWA, with a cash ratio lower than 1:1, being the only exception. The Board indicates, however, that UNRWA is still able to meet its immediate liabilities as they fall due.

13. For the five entities reporting under the United Nations system accounting standards, the Board cautions that their financial ratios are not directly comparable with those of the entities reporting under IPSAS because information on assets and liabilities is not fully reported under the United Nations system accounting standards. The Board observes that, on the basis of the available information on assets and liabilities, the five entities can demonstrate their financial sustainability and liquidity to meet reported liabilities (see A/69/178, paras. 12-14, and Corr.1). In this context, the Advisory Committee notes that the Board provides analysis of financial ratios that includes a comparison of such ratios with those of one or more preceding financial periods in four instances (the Secretariat, UNODC, UN-Habitat and ITC). Of the four, ITC is the only entity that shows a decline across all the financial ratios against the prior reporting period.

14. The Advisory Committee was informed by the Board, upon enquiry, that, while most of the funds and programmes had experienced a declining current ratio (current assets to current liabilities), all entities had improved in terms of the ratio of total assets to total liabilities. The Committee was also informed that the levels of reserves held by the entities, with the exception of UNRWA, had increased in line with growing surpluses and expenditure. UNWRA had demonstrated relatively small improvements in its ratios and a small increase in its revenue and reserves.

15. The expenditure, reserves and surpluses for the seven entities reporting under IPSAS for the two financial periods ending 31 December 2012 and 31 December 2013, as provided by the Board, are reflected in table 1.

Table 1
Expenditure, reserves and surpluses for seven entities reporting under IPSAS for the financial periods ending 31 December 2012 and 31 December 2013
(United States dollars)

	Expenditure			*Reserves*			*Surplus*		
Entity	*2012*	*2013*	*Percentage*	*2012*	*2013*	*Percentage*	*2012*	*2013*	*Percentage*
UNOPS	676 615	703 639	4.0	62 932	82 756	31.5	8 176	14 722.0	80.1
UNHCR	2 323 434	2 704 187	16.4	1 034 358	1 528 760	47.8	113 431	460 404.0	305.9
UNICEF	3 622 321	4 088 963	12.9	351 986	631 546	79.4	319 469	759 570.0	137.8
UNDP	5 262 785	5 244 451	(0.3)	360 638	360 638	–	(173 432)	(98 494.0)	43.2
UNRWA	991 592	1 118 459	12.8	(11 555)	(11 776)	1.9	(47 451)	23 463.0	149.4
UN-Women	235 887	264 105	12.0	22 000	22 000	–	(15 746)	24 400.0	255.0
UNFPA	830 387	913 340	10.0	93 304	96 660	3.6	158 085	63 427.0	(59.9)

16. The Advisory Committee was informed about a general trend of increases in earmarked contributions. It was also informed that agencies heavily reliant on voluntary funding (e.g. UNHCR, UN-Women and UNOPS) were particularly prone to financial pressure in the event of a decline in their funding levels or an increase in the levels of restrictions placed on their voluntary contributions. In this context, the Board recalls that past experiences with entities such as UN-Women and UNRWA have shown that voluntary funding levels can be subject to a relatively high degree of uncertainty.

17. Concerning the overall financial position of the Secretariat, the Advisory Committee was informed by the Board, upon enquiry, that the Organization was in good financial health in absolute terms and, with the adoption of IPSAS in 2014, a more transparent view of the overall financial position would become available. In this context, the Committee was informed by the representatives of the Secretary-General that, overall, the assessed contributions under the regular budget had increased over the past five bienniums, which was consistent with the trend of increases in the approved funding for the regular budget and related expenditure, as reflected in table 2.

Table 2
Assessed contributions and regular budget trends for the past 10 years
(United States dollars)

	Assessed contributions			*Regular budget*	
Biennium	*Regular budget (a)*	*Capital master plan (b)*	*Total assessed (c = a + b)*	*Final appropriation*	*Final expenditure*
2004-2005	3 647 566 400	17 802 000	3 665 368 400	3 655 800 600	3 612 216 000
2006-2007	4 166 507 700	506 541 649	4 673 049 349	4 193 772 400	4 146 278 000
2008-2009	4 780 138 600	681 928 170	5 462 066 770	4 799 914 500	4 749 421 000
2010-2011	4 999 145 550	681 928 174	5 681 073 724	5 416 433 700	5 414 152 000
2012-2013	5 395 508 900	–	5 395 508 900	5 565 067 800	5 524 829 000

18. The Board also observes in the finances of the Secretariat:

(a) A decline in assessed contributions as a percentage of total income in recent reporting periods (54.5 per cent in 2010-2011, 56.4 per cent in 2008-2009 and 58.8 per cent in 2006-2007);

(b) A deficit between income and expenditure of about $917 million, which was financed from reserves, leading to the depletion of accumulated reserves;

(c) A decrease in interest income for the full investment pools managed by the United Nations Treasury from $355 million in 2010-2011 to $134 million in 2012-2013.

19. Upon enquiry, the Advisory Committee was informed by the representatives of the Secretary-General that the reduction in assessed contributions related primarily to the capital master plan, for which there had been no authorized assessments in the biennium 2012-2013.

20. Concerning the decrease in reserves and fund balances, the Advisory Committee was informed by the representatives of the Secretary-General that 76 per cent of the decrease related to the funding for end-of-service and post-retirement liabilities, about 16 per cent predominantly to earmarked funds and the remaining 8 per cent primarily to construction-related capitalization costs and the capital master plan. The Committee also comments on the reserves of the United Nations Capital Development Fund in paragraphs 57 and 58 below.

21. **The Advisory Committee notes that there are currently no explicit guidelines concerning appropriate standards for the level of reserves across United Nations entities. The Committee believes that systematic monitoring and assessment against predetermined standards could be beneficial. The Committee therefore recommends that the General Assembly request the Secretary-General, in his capacity as Chair of the United Nations System Chief Executives Board for Coordination, to invite the heads of the United Nations entities to develop appropriate guidance with regard to reserves, clearly specifying the minimum and maximum levels, taking into consideration the distinct funding models and operational requirements for different United Nations entities.**

2. Implementation of the International Public Sector Accounting Standards

22. The Board notes that the adoption of IPSAS across all entities in its portfolio represents a significant achievement. The Board continues to assess the status of implementation of IPSAS in its entity-level reports and also in its overall progress report. The Advisory Committee provides its detailed comments and recommendations on this matter in its seventh progress report on the adoption of IPSAS (A/69/414).

3. Status of implementation of the Board's recommendations

23. In each of its reports, the Board provides the status of implementation of recommendations for the previous financial period. A summary of the overall position for the 19 entities, including peacekeeping operations, is contained in annex III to the concise summary report (see A/69/178/Corr.4). The Board reports that 55 per cent of the recommendations issued to the 19 entities for the biennium

2010-2011 were fully implemented (2008-2009: 65 per cent) and considers this to be evidence of strong management commitment to addressing its recommendations (see A/69/178, paras. 95-99, and Corr.4).

24. The Board also notes that its concise summary report was being produced during a transitional year, with 10 entities, including peacekeeping operations, reporting annually and nine reporting biennially. The differences in reporting for the two sets of entities were:

(a) For the nine entities reporting biennially, recommendations made by the Board in its reports for the biennium 2010-2011 reflected the status of implementation as at 31 March 2014;

(b) For the 10 entities reporting annually, recommendations made by the Board in its reports for the biennium 2010-2011 reflected the status of implementation as at 31 March 2013[1] (see A/69/178, para. 96, and Corr.2 and 4).

B. Cross-entity issues

1. Management of implementing partners

25. The Board comments on the management of implementing partners by United Nations entities in paragraphs 42 to 55 of its concise summary report and in its reports on some of the individual entities. The Advisory Committee was informed, upon enquiry, that the Board reported on such management in eight entities: the Office for the Coordination of Humanitarian Affairs, UNHCR, UNODC, UNICEF, UNDP, UNFPA, UN-Women and UNEP.

26. The Board notes that implementing partners vary widely in terms of size and role, ranging from host Governments to other United Nations entities and from large-scale multinationals to smaller, local non-governmental organizations. The types of project and programme delivered by implementing partners also vary in size, duration and cost. The Board notes that a significant and growing proportion of overall expenditure of some entities is being actually incurred through implementing partners (32 per cent in UNICEF and 40 per cent in UNHCR). In the Board's view, upon the transfer of an entity's funds to its partner, effective governance needs to be objectively demonstrated by the entity to ensure that funds are used for the intended purposes, the risk of fraud and error is minimized and the desired outcomes are attained in a cost-effective manner (see A/69/178, paras. 42-44).

27. The Board notes the recent progress made at the entity level to strengthen the management system for working with implementing partners, such as the development of guidance by UNICEF, UNHCR, the Office for the Coordination of Humanitarian Affairs, UNODC and UN-Women to ensure a more consistent approach across their country offices (ibid., para. 46). At the same time, however, the Board notes that information available to management was not consistently taken into consideration in the selection of implementing partners at the Office for the Coordination of Humanitarian Affairs, UNHCR and UNICEF (ibid., para. 50).

[1] United Nations peacekeeping operations have an annual financial cycle ending on 30 June. The figures reported are therefore for recommendations made up to 30 June 2012.

28. In its report on UNICEF, the Board cites a case involving fraud and misappropriation of donor funds by the personnel of a civil society organization at another United Nations entity. The Board notes that the same organization was also a UNICEF implementing partner and that a review of the capacity assessment report of the organization by UNICEF revealed that the capacity assessment process had been simplified and lacked a risk rating and that the selection of the organization had not been well justified. It is also indicated that, upon the disclosure of the case of fraud, UNICEF stopped providing funding to the organization. In the Board's view, the case illustrates the need for UNICEF to undertake improved due diligence with regard to civil society organization partners and to share information on implementing partners with other United Nations entities operating with the same partners in the same countries to implement programme activities (see A/69/5/Add.3, para. 33).

29. The Board observes that no formal requirement exists among United Nations entities to share information on the performance of implementing partners, many of which enter into contracts with various entities concurrently. In particular, the Board notes that there is currently no mechanism in place to share information on implementing partners whose performance has been inadequate. The Board considers that, without having the most complete information possible, United Nations entities face an increased risk of unknowingly entering into a contract with implementing partners that are underperforming elsewhere or are even suspected of or implicated in fraud (see A/69/5 (Vol. I), para. 113).

30. In his report, the Secretary-General indicates that the Office for the Coordination of Humanitarian Affairs, in its meetings with the United Nations Development Group and the High-level Committee on Management of the United Nations System Chief Executives Board for Coordination, called for the establishment of a formal requirement for information-sharing on the performance of implementing partners (see A/69/353, para. 38).

31. Furthermore, in its report on UNHCR, the Board also notes the development of a web-based partner portal to allow UNHCR staff to share knowledge and experience relating to partner performance with the aim of supporting future decisions on partner selection and project monitoring. The Board considers that such a tool could be used to improve the sharing of information with other United Nations agencies and the wider humanitarian and development community as appropriate (see A/69/5/Add.6, para. 104).

32. **The Advisory Committee concurs with the Board's recommendation on the need to develop mechanisms to share information concerning implementing partners. The Committee considers that the United Nations System Chief Executives Board for Coordination may be a suitable forum for discussing a possible system-wide mechanism for vital sharing of information on the management of implementing partners.**

2. Accountability and governance for globally dispersed operations

33. The Board provides its comments on accountability and governance in relation to globally dispersed operations in paragraphs 25 to 38 of its concise summary report and in some of the reports on individual entities. As indicated in paragraph 9 above, the Board notes the progress made by some entities (UNODC, the Secretariat and UNOPS) in developing an enterprise risk management approach. In the case of

UNHCR, the Board considers that the issue has not been given appropriate senior management attention.

34. In some instances, the Board continues to note problems in achieving an optimal balance between decentralized delegated authority and the appropriate level of monitoring and control by the respective headquarters offices. Specifically, the Board notes that, in the case of UNODC, there is a requirement that programme progress reports be submitted to its Programme Review Committee for review once per year. The Board also notes that, in 2012, only 3 of the required 15 programme progress reports were considered by the Programme Review Committee and that there was no evidence of division directors enforcing compliance with the requirement or of the Programme Review Committee reporting the failure to the Executive Director. The Board considers that there is a risk that UNODC senior management lacks a clear picture of progress with regard to regional and country programmes and that the programmes are not subject to adequate internal challenge and control (see A/69/5/Add.10, para. 59).

3. Management of core business services

35. The Board notes deficiencies in human resources management, asset management, procurement and contract management, and management of information and communications technology across entities in paragraphs 70 to 87 of its concise summary report and in the reports on the individual entities. The deficiencies noted by the Board include:

(a) Recruitment target time. The Secretariat failed to achieve the target of recruiting staff within 120 days in each of the past three years (see A/69/5 (Vol. I), table II.8). At UNFPA, delays in filling vacant posts ranged from one to seven months (see A/69/5/Add.8, para. 27);

(b) Use of contractors. At UNICEF, commitments for consultants and individual contractors often remained open past contract expiration, with a possible negative impact on the use of available funds (see A/69/5/Add.3, para. 85). At UNFPA, 9 of 50 staff recruited in four field offices under service contracts were performing core functions, such as operations support, senior technical officer and administration and finance assistant, a practice that is contrary to the UNFPA recruitment guidelines (see A/69/5/Add.8, para. 31);

(c) Errors in recording assets. At UN-Women, such errors occurred repeatedly and included misclassifications, overcosting, grouping of assets and incorrect capitalization of assets below the approved threshold (see A/69/5/Add.12, para. 39);

(d) Missing non-expendable property during inventory count. At the United Nations Institute for Training and Research (UNITAR), according to the physical inventory report of October 2013, 210 items of non-expendable property ($0.123 million) were in use, but not found in the most recent physical inventory count, conducted in the fourth quarter of 2013 (see A/69/5/Add.5, para. 24);

(e) Non-submission of physical inventory reports. At the United Nations University (UNU), three offices did not submit physical inventory reports in 2012 and five did not do so in 2013 (see A/69/5 (Vol. IV), para. 61);

(f) Inadequate procurement planning. At UNRWA, procurement plans were prepared only for items that had been procured under the regular budget, excluding items acquired through project funds (see A/69/5/Add.4, para. 61);

(g) Inadequate utilization of vendor performance reports. At UNFPA, two country offices with 1,758 purchase orders did not assess the performance of the suppliers of goods and services for completed contracts with values below $50,000 in 2013, even though evaluation of such vendors is encouraged in the UNFPA policy and procedures manual for procurement performance (see A/69/5/Add.8, para. 36);

(h) Inadequate controls in the environment surrounding information and communications technology. At UNDP, the control mechanism for the human capital management system, Atlas, was not working, and separated staff continued to sign in (see A/69/5/Add.1, para. 132).

36. **The Advisory Committee stresses the importance of heads of entities dedicating adequate attention to addressing the deficiencies identified by the Board with regard to the management of core business services and recommends that corrective action be taken as a matter of priority in all cases.**

37. On a related matter, in its review of the various financial statements, the Advisory Committee notes that staff costs constitute a significant component of the overall budget of each United Nations entity. **The Advisory Committee intends to keep this matter under review and believes that more information on the cost drivers affecting all personnel-related expenditure, including common staff costs and expenditure for consultants and independent contractors, would be beneficial. The Committee anticipates that the implementation of the enterprise resource planning system will enable the examination of such cost drivers in a greater level of detail.**

4. Fraud-risk awareness

38. In its concise summary report, the Board states that one of the areas of examination during the 2012-2013 audit cycle was to test the robustness of anti-fraud approaches adopted by some United Nations entities. Specifically, the Board reviewed UNHCR, UNOPS and the Secretariat in that regard. The Board's comments on the issue are contained in paragraphs 42 to 55 of its concise summary report and in the reports on the respective entities. Aside from the relatively recent work of the risk management units established in high-risk country operations, such as those in Somalia and Afghanistan, the Board finds an inadequate level of understanding of the overall fraud threat faced by United Nations entities. In this respect, the Board provides the examples of the Secretariat, UNHCR and UNOPS as not having conducted a thorough assessment of their exposure to the risk of fraud. In the Board's view, in the absence of such an assessment, those entities are not in a position to assess the effectiveness of existing control measures, mitigate any problems, define their tolerance to different types of fraud risk or ensure that anti-fraud controls are proportionate (see A/69/178, para. 60).

39. The Board notes that, of the three entities examined, only UNOPS has established an integrated counter-fraud strategy (ibid., para. 57). In UNHCR, the Board observes a slow pace of progress in updating counter-fraud measures and a possibility of underreporting of fraud based on the relatively low level of reported fraud in relation to total expenditure. The Board also notes a general lack of

awareness of external fraud risk in UNHCR, limited staff training on the subject and a lack of urgency in driving improvements to the existing counter-fraud measures (see A/69/5/Add.6, paras. 114-115).

40. With regard to the Secretariat, in its observations concerning the Office for the Coordination of Humanitarian Affairs, the Board highlights a case first identified in 2012 by the Risk Management Unit in Somalia and the Office of Internal Oversight Services (OIOS), which involved seven implementing partners of the Common Humanitarian Fund for Somalia that were under investigation because they were suspected of defrauding the Fund. The comments and observations of the Board in this regard are contained in paragraphs 117 to 128 of its report (A/69/5 (Vol. I)).

41. The Board observes that many United Nations entities operate in high-risk environments and are exposed to a wide range of fraud risks, both internal and external. While it is impossible to detect all fraud, assessing the potential risks, scale of loss and exposure to fraud is an important first step (see A/69/178, paras. 56-59).

42. **The Advisory Committee trusts that the Board will continue to keep this important matter under review for all United Nations entities under its purview and will provide a deeper analysis in future audit reports that will include the steps taken by such entities to assess the effectiveness of existing control measures, mitigate any problems, define their tolerance to various types of fraud risk and ensure that anti-fraud controls are proportionate.**

43. The Board also highlights the need to consolidate the investigative capabilities of the United Nations system entities, suggesting the possibility of a system-wide unit to tackle allegations of fraud on behalf of all entities. The Advisory Committee was informed, upon enquiry, that the Board's suggestion in that regard had not been intended to prescribe a specific system-wide counter-fraud unit, but rather to stress the need for management to consider a more consolidated response to the fraud risks faced by the Organization.

C. Issues concerning specific entities

1. Office of the United Nations High Commissioner for Refugees and United Nations Institute for Training and Research

Internal oversight arrangements

44. The Board provides an update on the continuing discussion between UNHCR and OIOS concerning a proposed memorandum of understanding to better define the responsibilities under the current audit arrangements in paragraphs 19 to 22 of its report (A/69/5/Add.6). According to the Board, the matter has been under discussion for more than two years, but revised arrangements have not been agreed upon, an initial difficulty being reaching agreement on the legal basis of the revision. **In this context, the Advisory Committee recalls its earlier observation that, before any definitive decision is taken, an authoritative legal basis will be required, in view of the mandated remit of OIOS under resolution 48/218 B (see A/67/381, para. 45). The Committee remains concerned that the continued absence of an agreement concerning the internal audit arrangement of UNHCR could expose the entity to internal-control weaknesses. The Committee therefore recommends**

that UNHCR and OIOS bring the long-outstanding matter to a final resolution without further delay.

45. The Board draws attention to the continuing lack of an internal audit function in UNITAR as a matter of concern. Again, according to the Board, negotiations between UNITAR and OIOS are in progress. The Advisory Committee was informed, upon enquiry, that OIOS had proposed to include internal audit assignments for UNITAR in its workplan for 2015. The Committee was also informed that the total income of UNITAR had increased from $42.1 million for the biennium 2010-2011 to $43.2 million for the biennium 2012-2013. It was indicated that the surplus would be used towards the payment of accumulated debt for administrative services provided by the United Nations Office at Geneva. The Committee was further informed that the cost of services from OIOS would need to be included in the biennial budget of UNITAR and presented to its Board of Trustees. **In this context, the Advisory Committee recalls its observation that continued uncertainty over the internal audit arrangements could lead to a deficiency in internal control at UNITAR (see A/67/381, para. 46) and concurs with the Board's recommendation that UNITAR, in collaboration with OIOS, urgently resolve the issues of funding and service cost and establish appropriate internal audit coverage.**

2. United Nations Children's Fund

National Committees

46. The Board continues to make comments and recommendations on the need for enhanced oversight of National Committees by UNICEF (see A/69/5/Add.3, paras. 17-28). The Board notes that the cooperation agreement between UNICEF and the National Committees provides that the latter may retain up to 25 per cent of their gross proceeds to cover their operational costs. In this connection, the Board notes the concerted efforts made by UNICEF to strengthen its oversight arrangements and the subsequent decline in the overall retention rate of National Committees from 28 per cent in 2012 to 24 per cent in 2013. However, a further analysis by the Board of the retention rates by resource type (earmarked or unearmarked) revealed significant differences by Committee: for earmarked resources collected, the retention rates ranged from zero to 87 per cent, while for unearmarked resources collected, the retention rates ranged from zero to 109 per cent (two National Committees had unearmarked resource retention rates of more than 100 per cent). In this context, the Advisory Committee recalls its prior recommendation encouraging UNICEF to enhance its oversight of the implementation of the cooperation agreements between UNICEF and the National Committees, insofar as the National Committees undertake activities under the UNICEF brand, and to consider reviewing the cooperation agreements, where appropriate. The Committee also recalls that it has stressed the need for UNICEF to consider additional measures, such as seeking representation on the boards of the National Committees (see A/68/381, para. 25). **The Advisory Committee, while noting the efforts made by UNICEF, concurs with the Board's recommendation that UNICEF ascertain the reasons for the high retention rates determined by some National Committees and take measures to assess the optimal retention rates, taking into consideration the nature and scale of operation of the individual National Committees, to ensure that the resources transferred to UNICEF by the National Committees are to the maximum extent possible.**

47. The Board notes that, owing to the measures taken by UNICEF in monitoring the reserve policies, the number of National Committees that had reserve balances exceeding the benchmark of three months' expenditure decreased from 16 in 2012 to 13 in 2013. While stressing the need for increased efforts by UNICEF, the Board highlights that some National Committees continue to maintain high levels of reserves that exceed the established benchmark. **The Advisory Committee concurs with the Board's recommendation that UNICEF strengthen its monitoring of the reserves of National Committees to continue to reduce the reserves to reasonable levels.**

Procurement

48. The Board notes that UNICEF had issued two purchase orders for mosquito nets to a "blocked"[2] supplier that had been found guilty of "financial wrongdoings" and suspended for one month; the purchase orders were valued at $1.22 million and $1.7 million, respectively. The Board also notes the explanation provided by UNICEF that, while it had alternate suppliers of bednets, some countries had specified brands of products and would not accept alternatives (see A/69/5/Add.3, para. 82). **The Advisory Committee considers purchases made from blocked suppliers to be a matter of concern and concurs with the Board's recommendation that the UNICEF Supply Division work with country offices and government counterparts to expand the product brands accepted by countries to avoid the need to purchase items from blocked suppliers. The Committee also considers that the issue of procurement from blocked vendors should be kept under review for all United Nations entities under the Board's purview to avoid the occurrence of such instances in the future.**

3. United Nations University

Japan Foundation for the United Nations University

49. The Board provides its comments and recommendations on the relationship between UNU and the Japan Foundation for UNU in paragraphs 22 to 30 of its report (A/69/5 (Vol. IV). The Board notes that, notwithstanding the long and productive relationship between UNU and the Foundation, UNU has signed no formal cooperation agreement with the Foundation on key issues such as the nature of the relationship between the two entities, the scope for use of the UNU logo and brand in the fundraising activities of the Foundation, financial reporting provisions and the retention rate of the funds raised by the Foundation for meeting its operational costs.

50. The Board also notes that, of the total expenditure of the Foundation for the biennium 2012-2013, $621,367 (53 per cent) was provided to UNU and $554,312 (47 per cent) was used to cover the operational expenditure of the Foundation. It considers that the operational expenditure of the Foundation appeared high. Upon enquiry, the Advisory Committee was informed that it was generally acceptable to the Board for fundraising entities, operating under national legislation, to retain funds and use the interest earned thereon to meet operational costs. Nevertheless, the Board did not, in the case at issue, have specific information on how expenditure

[2] The UNICEF Supply Manual provides that vendors that have been determined by UNICEF to be engaged in corrupt or fraudulent practices will be classified as ineligible vendors and therefore "blocked".

relating to fundraising for UNU compared with the expenditure of other activities of the Foundation not relating to UNU.

51. The Board considers that a formal agreement between UNU and the Foundation is essential to developing UNU accounting policies under IPSAS that would guide the treatment of funds transferred to UNU and those retained by the Foundation. In the report of the Secretary-General, it is indicated that UNU does not accept the Board's recommendation to establish a formal agreement between the two entities on the basis that a highly functional 25-year relationship already exists (see A/69/353/Add.1, para. 44).

52. The Advisory Committee was informed, upon enquiry, that the Board considered that the relationship between UNU and the Foundation had similarities to that between UNICEF and the National Committees. In this context, the Committee recalls its comments in paragraphs 46 and 47 above concerning UNICEF and its National Committees. The Committee also recalls its previous comments concerning the possibility of reputational risks being incurred by a particular United Nations entity owing to the use of its name and brand by partner organizations in individual Member States over which it has limited control (see A/67/381, para. 56).

53. The Advisory Committee was informed by the representatives of the Secretary-General that, on the advice of the Board, a proposed agreement of cooperation between UNU and the Foundation was under discussion and that UNU had given assurances that an agreement would soon be formalized. **The Advisory Committee concurs with the Board's recommendation that UNU establish a formal cooperation agreement with the Foundation in order to clearly identify respective roles and responsibilities and develop appropriate accounting policies regarding how UNU will account for the gross proceeds from and the retentions made by the Foundation in compliance with IPSAS. The Committee trusts that a formal agreement between UNU and the Foundation will prove beneficial to the existing collaborative relationship between the two entities.**

4. United Nations Entity for Gender Equality and the Empowerment of Women

Regional architecture

54. The Advisory Committee recalls that the Executive Board of UN-Women approved the implementation plan of the new regional architecture in November 2012 and that by 31 December 2012 four of six regional offices had been established (see A/68/5/Add.13, para. 7). The financial report for the year ended 31 December 2013 provides that UN-Women has completed the implementation of the regional architecture and has established six regional offices, six multi-country offices and close to 50 country offices. The Committee was informed, upon enquiry, that all the regional offices were operational. **The Advisory Committee welcomes the completion of the implementation of the regional architecture by UN-Women.**

Procurement authority

55. The Board provides its comments and recommendations on procurement and contract management in paragraphs 73 to 80 of its report (A/69/5/Add.12). The Board notes a weakness in the chapter on contract and procurement of the Programme and Operations Manual of UN-Women on the basis that it does not explain the procedure for reviewing minor procurements (below the threshold of

$30,000). In 2013, the Entity had more than 10,000 contracts with a value of $88.3 million that were not required to be reviewed by a procurement expert or the Acquisition Management Review Committee. The Board notes that the number of procurement staff with the required skills was insufficient, which resulted in the delegation of procurement functions to unskilled staff. In the Board's view, such a large volume of transactions requires a review by skilled procurement staff, the absence of which might increase the risks of procurement-related fraud.

5. United Nations Human Settlements Programme

Project funds

56. In paragraphs 47 to 50 of its report (A/69/5/Add.9), the Board notes that UN-Habitat project funds were deposited into the personal bank accounts of project team leaders, who were not recognized as either staff or officials of the United Nations. The Board indicates that, because UN-Habitat field offices had no bank accounts, UN-Habitat directed UNDP (under a global memorandum of understanding) to deposit project funds into the personal bank accounts of team leaders of the field offices. The Board notes that team leaders were also entrusted with other assets such as motor vehicles and that advancing funds to team leaders and entrusting them with such assets increased the risk of misuse and loss to UN-Habitat, in particular because the service contracts of team leaders had no recovery clauses in the event of misappropriation. **The Advisory Committee concurs with the Board's recommendation that UN-Habitat introduce cost-effective mitigation procedures, such as opening official bank accounts and including penalty/recovery clauses in contracts with team leaders.**

6. United Nations Capital Development Fund

Operating reserve

57. In its report on the United Nations Capital Development Fund, the Board notes that, as at 31 December 2013, the current assets of the Fund were $82.96 million, more than 27 times the current liabilities of $3 million, and the total assets of $94.26 million exceeded total liabilities of $13.72 million by $80.54 million. The Board indicates that the operating reserve held by the Fund as at 31 December 2013 was $14.61 million, equivalent to 106 per cent of the total liabilities. In accordance with its financial regulations and rules, the Fund is required to maintain an operating reserve at the minimum level of 20 per cent of project commitments.

58. The Advisory Committee was informed, upon enquiry, that, in practice, the current ratio of 1:1 and above was normally considered standard, but it depended on the industry, the nature of the operation and the objective for which the ratio was being used. The Committee was also informed of the Board's view that, although the Executive Board of the Fund did not set a ceiling for its operating reserve, the Fund held a high level of operating reserves when compared with its total liabilities. **The Advisory Committee considers the current level of reserves maintained by the Fund to be high in relation to its total liabilities and recalls its recommendation to keep the matter under continuous review (see A/68/381, para. 37).**

7. United Nations Office for Project Services

Service delivery and direct support

59. In the financial report of UNOPS for the year ended 31 December 2013, it is indicated that UNOPS receives funding from many sources, which it spends and disburses in accordance with a range of contract arrangements. It is also indicated that UNDP continues to be the most important partner for UNOPS, accounting for funding of $280 million (25 per cent), of which $30 million comes from UNDP regular resources, with the remaining $250 million coming from or being administered by UNDP. The Department of Peacekeeping Operations of the Secretariat is indicated as the second-largest United Nations partner, accounting for the delivery of $204 million (18.1 per cent). **The Advisory Committee is of the view that, on the basis of the information provided in the financial report, executing projects by a United Nations entity through another partner entity of the United Nations system may result in additional costs for the project, in the form of cumulative overhead costs, which would ultimately reduce the level of resources available to the final beneficiaries. The Committee believes that a review of the workings of such partnerships between United Nations entities, with a view to reducing overhead costs, in particular those that may be cumulative, merits attention. The Committee considers that the related business models of UNOPS and UNDP may be suitable for such review and encourages the Board to consider those in the course of its audits of the next financial period.**

8. Secretariat

Programme budget

60. The Board provides its observations on the programme budget of the United Nations in paragraphs 61 to 85 of its report (A/68/5 (Vol. I). In particular, the Board assesses the budget formulation process and provides comments and recommendations on the overall strategic value of the budget.

61. **The Advisory Committee is of the view that the Board's analysis of the preparation process of the programme budget of the United Nations does not clearly delineate the processes that are purely internal to the Secretariat and the intergovernmental processes that determine the United Nations budget. The Committee considers that the comments and recommendations by the Board would benefit from better justification and greater clarity and specificity in terms of the comparative analysis concerning the time and resources spent in preparing and determining the budget.**

62. **With regard to the observations and recommendations made by the Board on the strategic value of the regular budget, the Advisory Committee considers that the Board has again not clearly distinguished the actions that are within the Secretariat's own authority from those that require intergovernmental decisions.**

63. **The Committee therefore does not believe it to be appropriate to offer any commentary or its concurrence on the observations and recommendations made by the Board concerning the process of preparing and determining the programme budget of the United Nations and its strategic value as contained in paragraphs 76, 77, 85 and 89 of the Board's report (A/69/5 (Vol. I)).**

Service delivery model

64. The Board continues to emphasize the need for more clarity on what it terms the "target operating model" for the transformation projects (see A/69/178, para. 93). The Advisory Committee was informed, upon enquiry, that the absence of a target operating model (or service delivery model) was a matter of concern for the Board and that the Board had reported in further detail thereon in its most recent report on the enterprise resource planning system, specifically highlighting the risk that individual transformation initiatives such as the enterprise resource planning project would not be delivered in a manner supporting any future organizational design of the United Nations. The Board also notes that addressing the strategic change issues and delivering the technical solution at the same time will inevitably cause risks for the enterprise resource planning project team (see A/69/158, para. 64). In this context, the Advisory Committee recalls that it has recommended that the Secretary-General be requested to submit his proposals relating to the global service delivery model for the consideration of the General Assembly on different occasions. The recommendations made in relation to such proposals have been endorsed by the Assembly, including in its resolutions 67/246, 67/254 and 68/284. **The Advisory Committee therefore reiterates its earlier observation that any new service delivery model for the United Nations must be approved by the General Assembly and its recommendation that the Assembly request the Secretary-General to submit a report containing proposals for the global service delivery model as soon as possible (see A/68/7/Add.7, para. 59).**

Annex

Financial reports, audited financial statements and reports of the Board of Auditors for the financial period ended 31 December 2013 and other related reports considered by the Advisory Committee on Administrative and Budgetary Questions

1. United Nations (A/69/5 (Vol. I))
2. Third annual progress report of the Board of Auditors on the implementation of the United Nations enterprise resource planning system (A/69/158)[a]
3. Capital master plan (A/69/5 (Vol. V))[a]
4. Fourth progress report of the Board of Auditors on the implementation of the International Public Sector Accounting Standards (A/69/155)[a]
5. International Trade Centre (A/69/5 (Vol. III))
6. International Residual Mechanism for Criminal Tribunals (A/69/5/Add.15)
7. United Nations Capital Development Fund (A/69/5/Add.2)
8. United Nations Development Programme (A/69/5/Add.1 and Corr.1)
9. Fund of the United Nations Environment Programme (A/69/5/Add.7)
10. United Nations Population Fund (A/69/5/Add.8)
11. United Nations Human Settlements Programme (A/69/5/Add.9 and Corr.1)
12. Voluntary funds administered by the United Nations High Commissioner for Refugees (A/69/5/Add.6)
13. United Nations Children's Fund (A/69/5/Add.3)
14. United Nations Institute for Training and Research (A/69/5/Add.5)
15. United Nations Joint Staff Pension Fund (A/69/9, annex X)
16. United Nations Office on Drugs and Crime (A/69/5/Add.10)
17. United Nations Office for Project Services (A/69/5/Add.11 and Corr.1)
18. United Nations Relief and Works Agency for Palestine Refugees in the Near East (A/69/5/Add.4)
19. United Nations University (A/69/5 (Vol. IV))
20. International Criminal Tribunal for the Prosecution of Persons Responsible for Genocide and Other Serious Violations of International Humanitarian Law Committed in the Territory of Rwanda and Rwandan Citizens Responsible for Genocide and Other Such Violations Committed in the Territory of Neighbouring States between 1 January and 31 December 1994 (A/69/5/Add.13)

[a] Discussed in a separate report of the Advisory Committee.

21. International Tribunal for the Prosecution of Persons Responsible for Serious Violations of International Humanitarian Law Committed in the Territory of the Former Yugoslavia since 1991 (A/69/5/Add.14)

22. United Nations Entity for Gender Equality and the Empowerment of Women (A/69/5/Add.12)

23. Concise summary of the principal findings and conclusions contained in the reports of the Board of Auditors for the biennium 2012-2013 and annual financial periods 2012 and 2013 (A/69/178 and Corr.1-5)

24. Report of the Secretary-General on the implementation of the recommendations of the Board of Auditors contained in its reports on the United Nations for the biennium ended 31 December 2013 and on the capital master plan for the year ended 31 December 2013 (A/69/353)

25. Report of the Secretary-General on the implementation of the recommendations of the Board of Auditors contained in its reports on the United Nations funds and programmes for the financial period ended 31 December 2013 (A/69/353/Add.1)